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SOME REMARKS ON SOCIALIST INTEGRATION AND EAST-WEST RELATIONS, (U)

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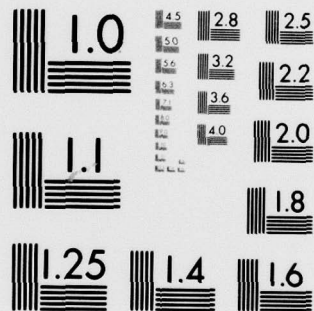


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Some Remarks on Socialist Integration and East-West Relations
for the Panel on "Vicissitudes of Economic Integration" at the
Airlie House Conference on "Eastern Europe - Stability or
Recurrent Crises?", November 13-15, 1975 Carl/McMillan
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I should like to raise three broad propositions for discussion.

I. Both the Soviet government and the governments of the Eastern European members of CMEA have had an interest in finding new forms of regional relations to replace the crude Soviet hegemony that was so visibly exercised in Czechoslovakia in 1968. The Comprehensive Program (CP) for socialist integration adopted in 1971 can be regarded in this perspective. The CP is a conservative document whose organizational solutions to regional problems lie well within the institutional framework of ^{central} planning. It constitutes a logical extension to the regional sphere of the "partial" economic reforms that were adopted by most of the member states (excluding Czechoslovakia and Hungary) in the 60s.

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II. Recent economic events in the West (the energy crisis, inflation, recession) have radically reduced the economic options open to the Eastern European countries and increased their dependence upon the USSR. They have thus facilitated the application of conservative measures for regional cohesion exemplified by the CP.

III. East-West economic relations may contribute more positively to regional goals. While they may thereby facilitate implementation of the CP, in some important instances they will do so in a manner which challenges the traditional approach and poses dilemmas for its advocates.

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These are major themes, and all I can do is sketch each briefly in the time allotted.

I. After 1968, the USSR faced the need of developing instruments by which it might exercise a more effective, but at the same time less obvious, dominion over Eastern Europe. One result was a renewed effort to move towards a planned "international socialist division of labor" for the region. The previous attempt to accomplish this had been stalled by nationalist (especially Romanian) opposition to implementation of the 1962 Basic Principles of the International Socialist Division of Labor and by the wave of economic "reformism" which reached a peak in the mid-60s and threatened to send the economies of the CMEA member states moving along divergent paths of institutional development. In the late 60s, Soviet journals began to show a new interest in Western concepts of integration, and proposals for the establishment of supra-national planning in the Soviet image began to reemerge.¹

There were some practical economic reasons for the reassertion of this old Soviet policy in new guise. (Was the shift in preferred terminology at this time from "international socialist division of labor" to "socialist integration" an attempt to give the policy a fresh look?) High domestic production and transport costs and expanding regional demand had contributed to Soviet dissatisfaction with the terms on which it supplied raw materials to Eastern Europe, and a new Comecon model would provide a framework for enlisting Eastern European participation in the development of

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higher cost Soviet sources of supply. Moreover, if it included, as proposed, a system of independent prices for regional trade, it would furnish as well a mechanism for improvement of the Soviet terms of trade with the Eastern European members. (However, this shift to an economic calculus for Soviet-East European relations, and the increase in the economic cost of integration which it implied for the Eastern European countries, required cautious implementation in post-1968 political circumstances.) An integrated regional economic system would hopefully also yield gains in efficiency which might lessen the pressure for drastic change in the traditional Soviet planning model still widely used in the area.

The Soviet initiative met little enthusiasm from those in the region who favored greater reliance on a socialist market mechanism, and who saw in their approach both better prospects for the realization of gains from regional specialization and for greater national autonomy. There ensued something of a debate between the proponents of market integration, in which Hungarian economists were in the forefront, and those who favored a planned integration consonant with the traditional concepts and institutions of centrally planned economies.² The "debate" was settled with the formal adoption of the CP in 1971.

In retrospect the CP seems to have been less of a compromise between the two approaches than of a reassertion, in more sophisticated form, of the traditionalist, central-planning position. Couched in terms so general that they are unassailable, the innovations of the CP are much more in the spirit of the limited changes in central planning introduced in the 60s in countries like the Soviet Union

and Romania, than of the reforms of the economic mechanism introduced in Czechoslovakia in 1967 and in Hungary in 1968.

An illustration of this is the "international economic organization" to which the CP gives particular emphasis as a vehicle for socialist integration.³ The modest, sectoral approach which this new form represents accords with the industrial reorganization which has been a central feature of the organizational changes adopted in the USSR, Romania and the GDR. International economic organizations are the regional counterparts of the industrial associations established in these countries, and the latter have been granted some increased authority in the area of foreign trade and cooperation, especially with CMEA. The industrial association has been a common element in all the so-called reforms in Eastern Europe, partial and comprehensive, but plays a far more significant role in the former.

Aspects of the CP which appear more in keeping with the market approach to integration, such as its timetable to reduce the inconvertibility of CMEA currencies, are inconsistent with its major thrust. As a result, there have been scarcely any developments in these areas, in comparison with the launching of joint CMEA investment projects and the establishment of sectoral economic organizations.

II. A point which will undoubtedly be a major theme of these sessions, but one which can scarcely be overemphasized, is the increased economic dependence of the Eastern European members of CMEA upon the Soviet Union as a result of developments in the West

in the last few years. I refer of course to the spectacular rise in world market prices of fuel and energy products following the 1973 OPEC action, and to the 1974-1975 inflation/recession in the West.

These developments have provided a windfall to traditionalism in Eastern Europe and to the Soviet approach to regional integration exemplified in the CP. In present circumstances, what alternatives are there to the USSR as a source of raw materials and as a market for Eastern European products? Any earlier East European reluctance to devote scarce resources to investment projects in the Soviet Union have been replaced by an eagerness to contribute not only capital and technology, but even labor, in return for future Soviet commitments to meet the bulk of future Eastern European requirements for the resulting output. (Even a labor-scarce country like Czechoslovakia is supplying the manpower as well as the equipment and supplies for the section^{in the USSR} of the new Orenburg gas pipeline for which it is responsible.)

At the same time, Eastern European products face slackening demand, increased competition and rising protectionism in Western markets, where they would in many cases have to be carefully nurtured in the best of circumstances. This has lent weight to those in Eastern Europe who have argued that in any event it makes more sense to gear Eastern European export production to the Soviet market, as an easier, more accessible and more stable alternative than the West can provide. Meanwhile the mounting Eastern European hard-currency debt in the West increases regional

financial dependence upon the Soviet Union as a source of hard-currency credit.

The current instability in the West obstructs institutional reforms of the Eastern foreign trade system. The timing of the Western economic crisis has been especially harmful to recent efforts in Poland to allow more direct interaction between domestic and foreign prices and to provide both the autonomy and incentives to production enterprises and associations which would result in their more effective participation in foreign trade. These efforts have been interrupted, and central controls "temporarily" reinstituted, as defense against external price and balance of payments instability in relations with the West. While these results may scarcely be conducive to socialist integration, they are at least arguably in the spirit of the CP.

A final way may be cited in which the economic crisis in the West has given traditional institutions and methods and institutions in the East a new lease on life. Even if the growth in real incomes in Eastern Europe has slackened lately, in comparative international terms the position of the Eastern European consumer will have appeared to have improved. Not unjustifiably, inflation and unemployment in the West will have made him relatively more satisfied with his economic lot. Pressure for change from this quarter has thereby been somewhat attenuated.

III. If the CP was an attempt to control the course of economic (and thereby political) reform in Eastern Europe, it may also be interpreted as an effort to exercise closer direction over

member states' relations with the West, given the new opportunities opened by detente. This is not to argue that the CP was an effort to block the development of such relations. On the contrary, both the CP and detente seem to have been regarded in the East as offering parallel possibilities of alleviating pressing economic problems at minimum systemic cost. Their complementarity is formally stressed in the CP and has often been asserted elsewhere in official statements.⁴ Therefore, if East-West trade returns in the late 70s to its dynamism of the early 70s, what are some of the implications for socialist integration in general and for the CP in particular? Will it necessarily occur at their expense? A few points in this regard may be suggestive.

The shift in the Soviet attitude towards the EEC in the period since Czechoslovakia should be recalled at this point. As a result, amendments to the CMEA charter have been proposed to permit formal agreements between the Council and international organizations, and tentative contacts between the CMEA and EEC secretariats were established in the last 18 months. This shift may be interpreted as a response to Eastern European demands and as an effort to forestall unilateral solutions if the regional approach was not revitalized. It is also of course a recognition of some salient economic facts: the rapid expansion of intra-European trade and the extension of the EEC common commercial policy to Eastern Europe. The Soviet attempt to promote contacts at the regional level is in keeping with the CP emphasis on coordination of national economic policies. It gives legitimacy to the CMEA as an international interlocutor. From the Eastern

European viewpoint, while collective negotiation with the EEC may offer certain economic advantages to the Eastern European members of CMEA, it would also explicitly limit their sovereignty ^{in these matters.} The result has been the reportedly slow progress in Eastern European ratification of the CMEA charter amendment and the threat of a new breach with Romania on the issue.

An important change in the procedures for establishing prices in intra-regional trade was adopted earlier this year. In connection with the sharp increase in the prices of crude petroleum and other basic industrial raw materials delivered from the USSR to the East European countries, it was decided that such prices should be reestablished annually on the basis of a five-year moving average of world market prices. Therefore instead of being fixed for five-year periods on the basis of world market prices of the preceding five years, CMEA contract prices for these goods will be renegotiated annually on a changing world-market-price base. The admitted reason for this increased flexibility in CMEA pricing is the altered opportunity cost of trading on the regional market, given expanded opportunities and new terms in the West.

It seems possible that as the opportunity cost of regional (versus extra-regional) trade becomes more real for greater numbers of CMEA goods, that this procedure will be extended, even to manufactures. Moreover, the shift in world terms of trade in favor of the USSR would appear to have finally laid to rest proposals for an "own price" system for CMEA from the Soviet side. Instead, the impact of increased East-West commercial relations appears to

have been to tie CMEA prices for some major goods more realistically and more flexibly to world market prices than ever before.

Similar circumstances have produced change in the related area of CMEA currencies. As pointed out earlier, the CP established a timetable for the gradual establishment of more orderly and realistic exchange rates and for the assumption by the ruble and other CMEA currencies of a more operational role in regional trade. This timetable has not been met. Its objectives conflict fundamentally with continued reliance under the CP on traditional instruments in other aspects of regional relations. However, under the new CMEA procedures adopted earlier this year, payment of intra-CMEA deliveries of fuels and industrial raw materials is to be in hard currencies. In other words, these products are to be treated as if they were exchanged on the world, rather than on the regional market.

While settlement in hard currencies has not been unknown in regional trade, this represents a significant extension of the practice. The convertibility implications of trade in hard goods has been previously recognized in the practice of planning deliveries of hard goods against hard goods under bilateral trade agreements. Settlement in hard currency however, had been limited to extra-plan deliveries of hard goods to regional partners.

This form of creeping convertibility in the region, in terms of extended use of hard currencies in regional settlements, may well continue under similar pressures. Member-states that have paid lump sums of hard currency for plant and technology, or who

under terms of long-term production agreements with Western partners are committed to continuing payment of hard currencies for parts and services, will pressure in turn for hard-currency payment when goods produced under East-West cooperation agreements are exported to the region. The joint venture arrangements in Romania explicitly foresee this possibility, and it is a major problem throughout the region.

While a gradual increase in the proportion of regional trade conducted on a convertible currency basis was envisaged in the CP, it was the ruble that was to have played a central role in this regard. In this sense these developments are not in the spirit of the CP. They do accord broadly with the long-standing Polish position that persistent regional trade imbalances should be settled (at least in part) in gold or hard currencies. In the sphere of currencies as well as prices then, a limited degree of "automaticity" has been injected into the CMEA system as the result of the region's increased openness to the world economy.

Cooperative arrangements and joint ventures with Western firms can be seen as having further implications for socialist integration. Western participation in the regional investment projects stressed by the CP, such as the Kursk iron and steel complex and the Ust-Ilim pulp and paper complex in the Soviet Union, provide needed hard-currency financing, capital equipment, more sophisticated technology, and managerial as well as technical know-how. Western contributions are regarded as essential to the successful exploitation of natural resources required

for CMEA industries, according to the most modern techniques and in ways which will guarantee future sources of hard currency. Western "investment" in these projects is usually according to the formula by which Eastern European capital has traditionally participated: provision of capital goods and technology on credit, to be repaid (principal plus interest) in the products of the newly developed complex.

The inflow of capital and technology from the West also tends to give impetus to CMEA regional production specialization agreements which have been generally regarded as lagging. The acquisition of Western technology and capital equipment, directly through purchase or license, or in the form of a cooperation agreement with a Western firm, greatly enhances the attractiveness of regional sourcing. There have been not infrequent instances of Eastern European countries' vying to acquire, and to prove their ability to apply, Western technology in order to obtain official designation as the regional source of the product (i.e. to "capture" the regional "market").

In this way, the "exchange of inefficiencies" which has characterized so much of CMEA regional trade in machinery and equipment may gradually be transformed into the pattern of intra-branch specialization that has proved a major benefit from integration in the West. The major role that a number of member countries' agreements with Fiat of Italy have played in regional specialization in the automotive industry is a good example of this trend. At the same time, information obtained from East-West business negotiations is an important potential source of

knowledge about relatively little publicized CMEA specialization agreements.

Not only regional specialization agreements but the machinery to implement them may be strengthened by direct links with Western firms. While there has been no instance, that I am aware of, of an agreement (beyond simple trade) between a Western firm and a CMEA international economic organization, or joint enterprise, the possibility definitely exists, and there have been reports of initial contacts. Although a handful have come into being since the adoption of the CP, these CMEA ventures have been slow to develop. Ties with Western firms could well breathe fresh life into them. And they might well help them to overcome specific operational problems. If a cooperation agreement with a Western firm merely gave the CMEA regional enterprise an excuse to maintain its accounts in Western currencies, it would help to overcome one serious obstacle to the development of this new CMEA institution.

The forms and modes of scientific and technical cooperation with the West may also find useful application in CMEA. Increased regional coordination of research and development and more joint R&D efforts were called for in the CP. Here again the international economic organizations are intended to play an important role. In these circumstances, the mechanisms for technology transfer which have been developed in the East-West context may have an increasing impact on the nature of CMEA technical exchanges. The growth of East-West trade in technical documentation has been paralleled by a greater awareness of the need to commercialize

CMEA scientific exchanges. The principle of free-of-charge exchanges within the region, which in practice probably served to limit both the quantity and the quality of these exchanges, and certainly their application, has been largely abandoned.

Specialized foreign trade enterprises for trade in patents and licenses in the CMEA countries are increasingly dealing on a similar basis with both East and West.

My purpose has been to indicate a few ways in which the growth of East-West economic relations has influenced, or is likely to influence, regional integration in Eastern Europe in the period since the adoption of the CP. The overall argument may be summarized as follows: Both the Soviet Union and the Eastern European member countries are interested in finding new forms of relations which can replace cruder forms of Soviet regional domination. Socialist economic integration is one such form. However, the nature of the present Soviet leadership and its commitment to traditional institutions and approaches has restricted the possibilities of moving very far in this direction. This has been reflected in the partial, frequently contradictory, nature of the CP and in its lagging implementation. The present economic crisis in the West has given sharper definition to regional interdependence, allowed a "breather" to the gradualist policies of the CP and even fostered a certain institutional retrogression. At the same time, the expansion and normalization of economic relations with the West serve in interesting ways to promote regional specialization and trade, especially through their

impact on regional institutions. In many respects, these influences entail developments which move socialist integration in the direction of market, or quasi-market, mechanisms. In so doing they conflict with the conservative spirit of the CP and with the cautious nature of its implementation to date.

Footnotes

1. The articles by G. Sorokin which appeared in the December, 1968 and June, 1969 issues of Voprosy Ekonomiki illustrate this, although they advocate a position in terms of supra-national regional planning model which is extreme by comparison with the final, more moderate Soviet position.

2. The Hungarian view is articulated, for example, in the writings of A. Apro, S. Ausch, T. Kiss and R. Nyers, in this period. The various positions, in their more moderate versions, are presented in the papers in T. Kiss, The Market of Socialist Economic Integration Budapest: Akademiai Kiado, 1973, which were given at a regional conference held in November, 1970.

3. The Comprehensive Programme for the Further Extension and Improvement of Cooperation and the Development of Socialist Economic Integration by the CMEA Member Countries, Moscow: CMEA Secretariat, 1971, Section 8.

4. Ibid, Section 1, para. 3. See also J. Anusz, "Expansion of Industrial Cooperation Between Poland and the Developed Capitalist Countries", in East-West Economic Relations, Warsaw, Foreign Trade Research Institute, 1973.

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